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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Release Of Iranian Assets . . .

It is unlikely that the removal of the Iranian assets from U.S. banks and their foreign branches will affect the exchange rate of the dollar adversely. It is probable that the largest part of the approximately $8 billion which has been transferred to an escrow account with the Bank of England will remain in dollar-denominated assets for some time to come and, thus, will not enter the foreign exchange market.

Some $5.1 billion of the total amount transferred has been set aside to meet Iranian obligations to the U.S. and foreign banks. Of this amount $3.7 billion is allocated to retiring large syndicated bank loans; the other $1.4 billion is in a special escrow account for settling other non-syndicated bank loans. If any of this $5.1 billion were to be exchanged for other currencies, the transactions would probably be spread out over a number of days or even weeks so that their exchange rate effects would be indistinguishable from so-called "normal" transactions. If a number of these transactions were to be bunched either deliberately or accidentally, it is well within the resources and skills of several large central banks acting either individually or in concert to smooth out the exchange rate effects.

The remaining $2.9 billion in assets have passed directly to the Iranians unencumbered by any escrow or other restrictions (at least so far). Although the form which those assets are in is not known, it is probable that they were in gold and perhaps in Treasury securities. This assumption is based upon the fact that the bulk of the assets was devoted to immediate redistribution to Iran's bank creditor. The conversion of gold and Treasury securities takes a little bit longer. Of the $8 billion in assets returned to the Iranians, $940 million was in gold and $1.4 billion was in U.S. Treasury securities. The rest (about $5.7 billion) was largely in more liquid form—bank deposits.

. . . Won't Weaken The Dollar

If the Iranians were so inclined, they could convert the $2.9 billion into other currencies fairly rapidly though at some cost to themselves in terms of interest foregone and fees and commissions. Further, it would be short-sighted, indeed, for the Iranians not to keep a substantial part of their international reserves in dollars since that is the primary settlements currency in international trade. High interest rates in the United States also make dollar-denominated assets desirable.

A further $4 billion in Iranian assets were not transferred abroad. This amount is apparently subject to various forms of dispute (including law suits) and will presumably be subject to arbitration. Whatever amount is not paid out as compensation is supposed to be returned to Iran. It is apparent that such settlements will take considerable time, further attenuating any potential foreign exchange market effects. It appears unlikely, therefore, that sufficient Iranian assets could be mobilized rapidly in the appropriate form for exchange in order to cause a marked decline of the dollar against the other principal currencies.

Pockets Of Strength . . .

The five per cent rise in the fourth quarter's GNP was not only above virtually all expectations but it represented a rate of growth more than twice as fast as the 2.4 per cent recorded in the third quarter. Undoubtedly some of this momentum traces to consumer hedge buying in the face of renewed inflation expectations. But beneath the surface this strength also traces to improvement in some durable manufacturing industries.

Although most industries have been cutting back spending on new plants and equipment as a result of persistently low rates of capacity utilization—which in December bounced up to almost 80 per cent but is still below the 84 per cent registered at the start of this recession—and erosion of profit margins, several areas in industrial machinery, however, are doing well.

Strong demand by the auto industry, expansion in the commercial and defense aerospace industry and importantly, increased expenditures for oil well drilling and alternative energy projects have generated significantly larger demand for machine tools. Large backlogs should sustain production for at least five quarters at the current rate of ship-

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ments. Sharply rising OPEC prices and decontrol of domestic crude oil have increased the oil industry's profitability thus resulting in stepped-up drilling for more oil. Therefore, many machinery companies which supply this industry—especially fabricators of drilling equipment—have registered a substantial rise in demand while some simultaneously posted hefty price increases. Drilling increased by 56 per cent between January and November 1980, with the total number of feet drilled during this time period standing at 250,461—an all-time record. Similarly, despite near-term scaling down of capital spending plans in general, major automobile companies have increased their budgets for the next five years for the production of more modern and fuel-efficient, small cars.

Barring another round of adverse developments such as an export embargo, skyrocketing production costs—especially energy—and bad weather, all of which occurred last year, stepped-up demand for U.S. agricultural products should improve the farm situation in 1981. Poor crops in the Soviet Union and China have increased the demand for our grains while other major producers such as Canada and Australia had disappointing harvests. Higher commodity prices boosted farmers' incomes during the fourth quarter, resulting in a rebound in the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/14/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.282	– 1.217	+ 2.353
Loans to Depository Inst.	1.332	+ .215	+ .105
Float	4.368	– 1.331	– 1.701
Total Reserve Bank Credit	143.570	– 2.512	+ 4.022
Treasury Deposits with Federal Reserve Banks	3.085	+ .106	– .196
Currency Outside Banks	119.507	– 3.416	+ 9.645
Member Bank Reserves:			
Required	41.240	+ .866	– 4.791
Excess (Deficiency)	.625	– .039	+ .242
Total Reserves Held	41.865	+ .827	– 4.549
Net Borrowed Reserves	.602	+ .261	+ .001
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.983	+ .112	+13.557
Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	374.1	– 4.2‡	+ 2.6‡
M-1B	416.9	+ 4.0‡	+ 6.6‡
M-2 (December '80)	1,669.7	+ 7.2	+ 9.4
L (October '80)	2,310.1	+ 12.4	+ 8.9

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/23/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.30%	14.30%	13.60%
* Federal Agencies	17.40	16.00	14.30
* Project Notes–Taxfree (46% Taxable Equivalent)	12.50	13.80	13.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	17.25	15.50	

‡Finance Company Paper–Prime

5- 14 days	17.00%
15- 29 days	17.50
30- 59 days	17.63
60- 89 days	16.25
90-179 days	15.00
180-270 days	14.00

‡* Bankers' Acceptances

Feb.	18.20%
Mar.	17.70
Apr.	17.25
May	16.80
Jun.	16.00
Jul.	15.30

‡Industrial Paper–Prime

30- 89 days	18.00%
90-120 days	17.00

†Federal Funds Effective Rate 18.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80n	$ 2,741	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80n	$ 1,490	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80n	5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80n	13.2%	12.0%	14.0%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons) †	Dec '80	97,282	97,339	97,781
Unemplcyment as % of Civilian Labor Force †	Dec '80	7.4%	7.5%	6.0%
Personal Income*	Dec '80n	$ 2,282	$ 2,260	$ 2,028
Leading Indicators Composite Index (1967=100) †	Nov '80	137.6	136.0	135.6
Industrial Production Index (1967=100) †	Dec '80	150.7	149.2	152.5
Net Change in Consumer Installment Credit †	Nov '80	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance †	Nov '80	–$ 0.79	–$ 0.97	–$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Dec '80n	1,548	1,563	1,548
New Construction Expenditures*	Nov '80	$ 231.8	$ 226.2	$ 239.4
Total Business Inventories †	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales †	Nov '80	$ 329.1	$ 325.8	$ 298.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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sales of tractors and even surpassing year-earlier levels. Sales of combines registered a slight improvement in November and December.

Although demand for farm machinery will continue to be pinched in the near term by tight credit and high interest rates, prospects for significantly improved farm income stemming from sharply higher returns on crops and livestock are expected to continue to boost sales of agricultural machinery. Last year's farm income was $23.4 billion, off almost 30 per cent from the previous year. As a consequence, farmers were forced to get by with old equipment which caused a 14 per cent drop in tractor sales and a 20 per cent slide in the sales of combines. Most of the retreat in sales took place during the prime selling seasons: the second quarter for tractors, and in August and September for combines.

. . . Cause Interest Rates To Gyrate

One of the more recent examples of the volatility which has come to characterize financial market developments occurred during the past month. Between mid- and end-December, both short- and long-term interest rates dropped sharply, by as much as four full percentage points, before rebounding somewhat in January. While the slide apparently

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/7/81)	114,733	– 1,595	+23,220
New York City (1/7/81)	29,154	+ 505	+ 9,316
Commercial Paper (1/7/81)	124,132	+ 1,069	+ 8,702

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks			
Nationwide (1/7/81)	173,191	– 1,914	+12,908
New York City (1/7/81)	51,243	– 632	+ 3,738
	Total Loans Gross Adjusted		
Nationwide (1/7/81)	432,374	– 2,407	+28,438
New York City (1/7/81)	103,339	– 1,607	+13,138

Financial Markets

	Friday 1/23/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.54%	+ .62	+ 4.00
180-Day Bills†	16.00	+ .80	+ 3.40
Longest Bills†	14.75	+ .92	+ 2.71
Recent Issues:			
15 1/8s 12/31/82	13.72	+ .70	
14s 12/31/84	13.21	+ .31	
13s 11/15/90	13.07	+ .49	
12 3/4s 11/15/10	12.38	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (1/22/81)	9.68%	+ .11	+ 2.35
Blue List Total ($ Million)	$ 649	+ $ 60	– $ 181
30-Day Visible Supply ($ Million)	$1,743	+ $475	+ $ 455
Total	$2,392	+ $535	+ $ 274
Corporates:			
Moody's Aa Composite (1/22/81)	13.65%	+ .12	+ 1.95
Money Mgr.–30-Day Supply ($ Million)	$4,471	+ $973	+ $2,815
Stocks:			
Dow-Jones Averages:			
Industrials	940.19	– 33.10	+ 64.08
Transportation	391.61	– 10.37	+ 115.95
Utilities	111.76	– 1.46	+ 4.18
65 Stocks	365.27	– 10.65	+ 51.43
Standard and Poor's 500 Stocks	130.23	– 4.54	+ 16.62
N.Y.S.E. Composite Index	74.72	– 2.61	+ 9.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,964	– 3,890	+ 12,182

* 46% Taxable equivalent 17.93%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/23/81	Week Ago
Overnight	19.25%	19.75%
1 month	19.25	19.81
3 month	18.88	18.75
6 month	17.25	17.25
1 year	16.13	15.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.05%	13.20%
Long Term (7 to 15 yrs.)	12.95	13.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/23/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03065	32.63
Canada	.8388	1.1922
Denmark	.1602	6.2400
France	.2133	4.6885
Germany	.4929	2.0288
Italy	.001037	963.75
Japan	.004951	201.95
Mexico	.04277	23.38
Netherlands	.4532	2.2065
Switzerland	.5443	1.8370
U.K.	2.4048	.4158

reflected a growing euphoria among financial market participants regarding the ability of the new Administration to put Federal government finances in order and the success of the Federal Reserve in slowing money supply growth, confidence soon began to erode in light of dismal budget deficit estimates for both fiscal years 1981 and 1982 and a bulge in the money supply in the first week of January. Moreoever, it seems likely that the continued strong pace of economic activity, the ongoing need for careful management of the money supply, buoyant business loan demand, together with deeply embedded inflation rate expectations, will preclude deep interest rate declines in the months ahead.

A drastic slowing of money supply growth in the fourth quarter of 1980 increased expectations of lower interest rates ahead. During the month ending December 31, for example, M-1A contracted at an almost 16 per cent seasonally-adjusted annual rate while M-1B dropped by a shade more than 13 per cent. With M-1B standing at $406.8 billion at year-end, the Federal Reserve did achieve its five per cent fourth quarter growth target; during the fourth quarter as a whole, M-1B averaged $410.9 billion, only slightly above the year-over-year upper target boundary of $409.5 billion. However, the record-breaking surge in M-1B during the first week in January (apparently reflecting the nationwide introduction of NOW accounts) raised new doubts as to the ability of the monetary authorities to curb the growth of the monetary aggregates and raised the possibility of further central bank monetary restrictions.

Inflation rate performance, although it may improve slightly, still remains a seemingly intractable problem. The rate of consumer price inflation remains deeply mired in double-digit territory, while the implicit GNP deflator deteriorated substantially in the fourth quarter. Although the rate of producer price inflation has been generally more moderate in 1980 than in 1979, weather-related food price increases and ever-escalating energy prices ensure that pronounced consumer price inflation relief is months away, necessitating continuing monetary restraint.

Finally, short-term business loan demand, especially at the nation's commercial banks, continues to surge, reflecting the relatively weak state of the bond markets, stepped-up inventory accumulation (both voluntary and involuntary), borrowing in expectation of even higher interest rates and some borrowings by corporations for working capital. During the 13 weeks ending January 7, 1981, commercial and industrial loans outstanding at large weekly reporting banks have expanded at a more than 16 per cent seasonally-adjusted annual rate and at an almost nine per cent annual rate during the past month. Outstanding commercial paper for nonfinancial corporations, in contrast, continues to drop, contracting at a seasonally-adjusted 67 per cent annual rate during the same 13 weeks and at a 54 per cent annual rate during the past four weeks. H

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